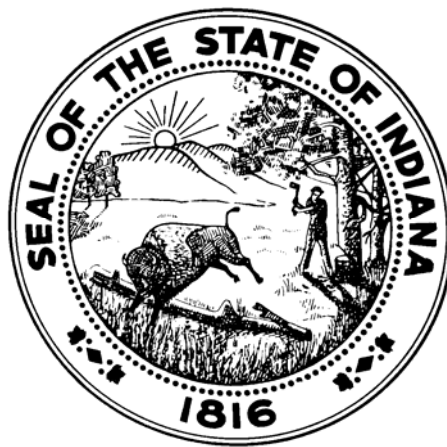


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

REVIEW REPORT  
OF

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
STATE OF INDIANA

March 1, 2006 to February 28, 2007



**FILED**  
12/12/2007



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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Secretary, Family and Social Services Administration	E. Mitchell Roob, Jr.	01-10-05 to 01-11-09
Director, Department of Child Services	James W. Payne	01-10-05 to 01-11-09



# STATE OF INDIANA

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## INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND THE DEPARTMENT OF CHILD SERVICES

We have reviewed the receipts, disbursements, and assets of the Family and Social Services Administration and the Department of Child Services for the period of March 1, 2006 to February 28, 2007. The Family and Social Services Administration and Department of Child Services' management are responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Family and Social Services Administration and the Department of Child Services are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations, except as stated in the review comments.

STATE BOARD OF ACCOUNTS

September 28, 2007

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
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STATE-WIDE SINGLE AUDIT

In conjunction with our review of Indiana's Family and Social Services Administration and the Department of Child Services, we also tested compliance with federal regulations and grant agreements. Findings relating to the federal programs administered by the department are included in the Indiana Statewide Single Audits.

COMBINED REPORT

The Department of Child Services (DCS) was created by Executive Order 05-15 on January 11, 2005, and then by Indiana Code 31-25-1 effective July 1, 2005. Multiple programs that were the responsibility of the Family and Social Services Administration (FSSA) prior to January 11, 2005, were transferred to DCS upon its creation. Effective upon DCS's creation and throughout our review period, the administrative program responsibilities were handled by DCS. However, the accounting functions for those same DCS programs continued to be handled by FSSA. As a result, both agencies were included within the scope of this review.

INCONSISTENT PROCEDURES

Family and Social Services Administration (FSSA) is made up of three divisions which were formerly independent agencies. We stated in our ten prior reports (most recently B24295 and B27892) that the three divisions' policies and procedures in accounting activity were inconsistent and incompatible within the present structure. We noted during prior audits that progress had been made through the implementation of standardized processes, communication through manuals and memos, etc. However, there are still various accounting software systems in use. Due to the size and diversity of FSSA's accounting operation, the lack of a standardized system reduces management's control over the accounting operation and the ability to quickly and consistently correct deficiencies and weaknesses when identified.

An agency's accounting responsibilities must include an effective accounting system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Current Status

FSSA has centralized accounting and payables functions to enhance consistent procedures. In addition, FSSA has begun implementing PeopleSoft Financials. This system will enable FSSA to have one source for all financial information. However, the Auditor of State (AOS) is currently not using PeopleSoft. Until the AOS begins using PeopleSoft on January 2, 2008, FSSA must use manual processes and utilize various financial software systems to be in compliance with AOS requirements. FSSA continues to assess consolidating software and systems currently in use within the agency.

COUNTY OFFICES OF FAMILY AND CHILDREN - ACCOUNTING OPERATIONS

As stated in our eight prior reports (most recently B24295 and B27892), we observed that the County Offices of Family and Children were not consistent in the manner in which they implemented their accounting operations. Some appear to be more accurate and efficient than others. Through further inquiry we found that there is not an operations manual for these offices, though periodic memos are sent.

Subsequent to our review period we noted that a manual had been developed and distributed for the Counties' use. Also, evidence was provided that basic training had begun.

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An agency must have internal controls that provide reasonable assurance for the effectiveness and efficiency of operations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1) Formal procedures in writing help to facilitate this goal.

Current Status

The Department of Child Services is currently developing standard procedures for local office internal controls. These procedures will be implemented in each of the 92 local offices. Implementation will include documentation of procedures and policies; resource manual; internal review team; state-wide training; an on-going audit team; and a state-wide accounting system. The internal review teams will at each local office, review the current process; recommend appropriate reorganization of office; assist with implementation of recommendations; and assist with training. A request has been made for three (3) Accountant 1 positions to staff the Internal Review Team. This team will be supervised by the Deputy Director of Administrative Services and/or the Controller.

Currently, a group made up of representatives from DCS Executive Staff, DCS Budget, DCS Legal, State Board of Accounts, FSSA Audit, FSSA Procurement, FSSA Financial Management, Local Office Directors, and Local Office Accounting staff, are meeting to determine what the appropriate policies and procedures should be and determine an appropriate timeline for implementation.

COUNTY OFFICES OF FAMILY AND CHILDREN - CONTRACTS AND PROCUREMENT

As stated in our four prior reports (most recently B24295 and B27892), we found that it was common practice at the County Offices of Family and Children not to utilize contracts when appropriate or to follow the State procurement process.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records. . . . Among other things . . . safeguarding controls over cash . . . are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Current Status

DCS is in the process of hiring Regional Financial Managers, who will help to ensure accountability and best use of funding sources.

Also, in DCS's budget request for SFY 2008 and 2009 there is a new contract unit. The new contract unit will establish new contracts guidelines for the department, including all local OFC office. Upon establishment of these guidelines all contracts for DCS will be processed through the contract unit, following all IDOA guidelines.

MONITORING

Overview of Prior Finding

State agencies have accounting responsibilities which include maintaining a control environment and maintaining control procedures. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1) Monitoring is an important method which helps to ensure that these responsibilities are met. Additionally, many federal grants require program monitoring by the administrative recipient.

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As stated in our eight prior reports (most recently B24295 and B27892), we noted several serious deficiencies in FSSA's monitoring system. It should be remembered that monitoring is not just a control to help ensure compliance with laws, regulations, and contracts, but also a control to help evaluate the validity of claims to the State, to help prevent fraud, and to help increase the effectiveness and efficiency of programs. In order to do this, monitoring must not only be a review of what has occurred at the end of a contract but what is occurring while the contract is ongoing.

As noted in the prior report, it is evident that these issues are being considered and progress has been made in addressing these issues, especially in regard to the Audit Services area. However, the deficiency noted in Item C in the prior finding remains to a significant degree.

Prior Finding Item C (Agency-Wide Monitoring Weakness)

C. The agency does not have a monitoring policy for contracted process servers.

Current Status Item C

Audit Services continues to make progress in both the tracking and monitoring of contracted process servers. Audit Services has partnered with KPMG to implement several suggestions in the draft summary report issued by KPMG which outlined a plan for improving the audit function. An inventory of possible audit candidates was compiled by Audit Services utilizing available information from the Contract Management System and other FSSA sources, such as Financial Management. A multi-year audit plan was then developed which identifies and prioritizes audits to be conducted based on risk and statutory or other review requirement.

Each year, as part of their contracts with FSSA, vendors are required to submit audited financial statements to Audit Services for review. These reports include OMB A-133 audits. Audit Services has developed a system for identifying the population of providers which are required to file these audits. In addition, Audit Services is developing a system for tracking receipt of these audits as well as notifying providers when the filing requirements are not met. An evaluation of the current procedures for review of these audits resulted in significant changes to the process. Enhancements have streamlined the process so that an increased number of providers will be reviewed and those with issues of high risk to the agency will be identified.

As noted in the prior response, Audit Services has continued to utilize the data mining software, Audit Command Language (ACL). Data is collected from a variety of State databases on a regularly scheduled basis. The software then allows FSSA to extract data on selected variables in order to identify potential high risk or unusual factors within the data. Use of the software to monitor the contractual obligations of non-programmatic vendors such as EDS and ACS is currently being explored.

Additional progress has been made in Audit Services' communication with contract audit vendors as noted under number 3 of the response of August 17, 2006. FSSA has established *Audit Contractor Coordination* which facilitates the coordination of audits conducted by FSSA Audit Services with contracted audit services of OMPP. Scheduled audits are submitted to Audit Services on a quarterly basis. Monthly meetings are a forum for the exchange of information on current audits. Current issues are shared and status reports on audits in process are submitted for review.

The communication function between Audit Services and program divisions continues to improve as all areas within FSSA recognize the benefit of improved communication. Audit Services is frequently contacted by program staff for collaborative efforts during the review of contracts, program service definitions, and changes to program objectives. Audit Services staff is currently participating on the Investigative Tracking System Project Team which is evaluating the agency's current system for tracking and responding to reports of alleged fraud. The Team is also assessing agency-wide needs in order to reach those objectives with an upgraded system.



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Audit Services' cooperative efforts with other FSSA divisions assist in increasing the effectiveness and efficiency of these divisions as well as the programs they oversee. Audit Services issues management reports to the various divisions which note internal control weaknesses observed during provider audits. Corrective action plans are then recommended for the deficiencies identified. Program areas are informed of appropriate control environments and are encouraged to implement practices which aid in monitoring contracts to ensure that vendors are in compliance with contractual obligations and responsibilities. Audit Services also conveys contract language suggestions to divisional program staff. For example, suggestions might pertain to objective performance measures to be specified in a contract which will aid in FSSA's ability to accurately evaluate and monitor contracts. Such measures will facilitate an examination of controls and adherence to written requirements which in turn, ensures that quality services are provided.

Based on the above noted improvements to procedures, as well as enhanced communication within the agency, we believe the requirement of the finding has been implemented with the exception of a deficiency in monitoring non-programmatic contractors. Audit Services will continue the process of identifying the population of all FSSA contractors through the records of FSSA and other State agencies. Once identified, a database of contracts maintained in systems other than Contract Management System will be developed. The population of contractors will be evaluated and audit candidates selected based on risk and other significant factors. These contractors will be integrated into the existing audit plan. The process for identifying all FSSA contractors will be implemented in State Fiscal Year 2008.

#### DEVELOPMENTAL DISABILITIES CONTROLS

##### Overview

The Bureau of Developmental Disabilities Services (BDDS) is a part of the Division of Disability, Aging, and Rehabilitative Services (DDARS) within FSSA. BDDS is responsible for the planning and administration of services in community based, residential alternatives for those who meet the criteria of developmentally disabled. The major goal of the Bureau is to support independent living in the least restrictive setting possible for the recipient. To fulfill its goal a variety of services are offered through approved providers. These services include residential habilitation, community habilitation, personal assistance, sheltered employment, and behavior intervention. In addition, funding for living expenses such as rent and utilities may also be awarded. The major funding sources are Medicaid (which consists of various Medicaid Waiver programs), Title XX, and State appropriations. In our four prior reports, (most recently B24295 and B27892), we found control weaknesses in the validation of claims paid and in the assurance process of the appropriateness and necessity of services.

##### Appropriate and Necessary Services as Stated in Original Finding

To help assure that the services that a recipient receives are appropriate and reasonable, FSSA requires that the recipient have a plan and a budget for the services required by the plan. Each recipient has a team that develops the plan. Two key members of the team are the service coordinator and the case manager.

The service coordinator is a State employee located at a BDDS district office. The coordinator determines eligibility, approves the individual community living budget, has placement authority and works with the recipient to plan, coordinate, and access appropriate services.

The case manager is an advocate for the recipient. The case manager assists the recipient in obtaining the needed services and help plan, monitor, and evaluate the recipient's services on an on-going basis. FSSA also relies heavily on the case manager to monitor that the recipient is actually receiving the services

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required and that the services are appropriate. Case management services may be provided by Area Agencies on Aging (AAA), local service providers, or independent case managers. Though some case management services may initially be provided by a State employee through the BDDS district office, in general, case managers are not State employees.

We found that there was no quality assurance reviews of the services performed by either service coordinators or case managers. We also found that there is a potential for conflict of interest when the case manager is employed by the same entity that also provides other types of services to recipients.

We found that not all recipients have a plan or a case manager. While the service coordinator may take on more responsibilities in these circumstances, we did not find compensating controls that would provide assurance that the recipient was receiving appropriate and reasonable services.

Subsequent to our report period ending June 30, 2001, we found that the newly developed Bureau of Quality Improvement Services (BQIS) (started in late 2000) had developed a provider and case management standard annual survey as well as other surveying techniques. In addition, the case managers are to fill out a case management ninety day checklist that is easily accessible by both BQIS and BDDS through a data base and subject to periodic reviews.

Providers with Fiduciary Responsibilities to Recipients as Stated in Original Finding

At times the service provider may have fiduciary responsibilities directly to the recipient's (i.e., the provider is payee for the recipient's benefits or the provider is responsible for the receipt and deposit of recipient's living expenses from the State). FSSA requires that the provider keep accounting records to support transactions made by the provider on behalf of the recipient and that these records be identifiable to the recipient. We found the monitoring of this by FSSA to be very limited.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Current Status

As noted in the original finding, "each recipient has a team that develops the plan [outlining expectations and the appropriate services to be provided]. The role and importance of the individual support team (IST) has been reinforced through the development of the person centered plans of hopes, wishes and dreams (PCPs), the annual preparation of individualized support plans (ISPs) and quarterly IST meetings to review progress made toward achieving the outcomes expected.

There are three major groups of consumers whose services are facilitated by the Bureau of Developmental Disabilities Services: those whose services are funded through Medicaid waivers (approximately 10,000 consumers), those residing in intermediate care facilities for the mentally retarded (ICF/MRs) (approximately 3,900 consumers), and those services are 100% funded by the State (approximately 3,500 additional consumers).

For those consumers served through Medicaid waivers, case management had been considered a waiver service, and thus the consumer and guardian could choose among a large number of individual contractors or even employees of the providers of residential or day services. DDRS agreed with the finding

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that "there is a potential for conflict of interest when the case manager is employed by the same entity that also provides other types of services." Effective September 1, 2006, case management was removed as a waiver service and the State, through the RFS process, contracted with a single case management entity to provide these services in a consistent manner, under the oversight of BDDS and BQIS personnel. Integrated into the contract is the clause whereby the winning contractor is prohibited from rendering another type of funded service to or for DD consumers. Thus consistency and quality in the discussions by the IST, the preparation of the ISP, the monitoring and follow-through on achieving outcomes and expectations has been greatly enhanced for those on Medicaid waivers.

For those consumers residing in ICF/MRs, the case management functions are performed by qualified mental health professionals (QMRPs) who are on the staff of the provider. They are responsible for convening the IST and preparing the ISP equivalent document. The funding for these services are part of the overall rate for the type of home as approved through OMPP. The role of the QMRP is mandated by the Centers for Medicare and Medicaid Services (CMS). Oversight is carried out through BDDS service coordinators, BQIS and the Indiana State Department of Health.

For those consumers whose services are funded 100% by state funds, case management is a service that is currently neither provided nor funded to recipients. DDCS has long stressed the importance of the IST, and the requirement for the preparation of an annual ISP has been reinforced in the upgrades to the new State Line Item budgeting and billing control system that rolled out July 2, 2007. Providers of certain groups of services may be reimbursed for their role, called "indirect service coordination," in completing the forms for person centered plans and ISPs, as detailed by the ISTs.

Thus the only portion of this finding that remains open relates to state funded services.

#### HOSPITAL CARE FOR THE INDIGENT (HCI) - PHYSICIAN AND TRANSPORTATION CLAIMS

As stated in our prior Report B27892, we found that of the more than \$50M in Hospital Care for the Indigent (HCI) property tax levies annually collected by counties and remitted to the State's HCI account, \$3M is reserved under Indiana Code 12-16-7.5-4.5(b) for payment of physician and transportation (P&T) claims for emergency medical care provided to uninsured persons. All other HCI revenues are transferred to the State's Indigent Care Trust Fund and leveraged for federal Medicaid funding for payment to hospitals.

We found a comprehensive lack of controls over payment of P&T claims under the HCI program. Control weaknesses included:

- Lack of oversight of income eligibility determinations. Caseworkers at the local Offices of Family and Children (OFCs) review income documentation and determine eligibility for the HCI program. However, FSSA does not verify whether the local OFCs maintain records of the documentation reviewed. No audits are performed by the central office staff of local HCI eligibility determinations.
- Lack of independent income verifications. For most programs managed by local OFCs, caseworkers enter income data into the Indiana Client Eligibility System (ICES). In turn, this data is automatically verified against a variety of independent sources, such as Department of Workforce Development (DWD) and Department of Revenue (DOR) records. However, income data for HCI applicants is not captured in a database. Instead, caseworkers enter limited information, including eligibility, into a separate database known as the HCI database. Even if income were entered into the HCI database, file transfers are not utilized to routinely compare this data to other databases.

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- Lack of identity verifications. Because HCI data is not verified against independent sources, validation checks are not automatically performed or updated for social security numbers.
- Lack of signature verification. If an applicant meets the income eligibility criteria, the local OFC issues a Certificate of Action (COA) and forwards it to FSSA-Financial Management for medical review. However, Financial Management does not enforce policies prohibiting submission of photocopied signatures or use of signature stamps by OFC directors. In addition, signatures are not verified against lists of current directors or copies of signatures.
- Insufficient claim verification. Although medically trained staff review the medical conditions described on the COAs, claims are not reviewed for consistency with the conditions described. Clerical staff who lack medical training process claims. If the service dates on a claim match the service dates on an approved COA, the services described and corresponding medical billing codes are approved without further review.
- Manual calculation of claims. To calculate the payment amount for a P&T claim, a clerical assistant manually looks up various medical procedure codes in a reference table, adds the corresponding amounts on an adding machine tape, and enters the amount in the HCI database. The tape is not saved to facilitate review.
- Lack of medical license verifications. P&T claims data is not cross-checked against Health Profession Bureau (HPB) data to verify that all billing physicians are properly licensed.
- Limited, manual screening for Medicaid duplicates. If an applicant's income is sufficiently low, case-workers may initiate a Medicaid enrollment process at the same time as an application for HCI assistance. If the Medicaid enrollment is approved, a medical provider may retroactively bill Medicaid for claims also submitted against an approved COA for HCI assistance. HCI payment data is not verified electronically on a periodic basis against Medicaid payment data. Instead, on an ad hoc basis a clerical assistant periodically checks a batch of open COAs by manually entering social security numbers into the query screen of the Medicaid payment database.
- Lack of provider audits. Audits of HCI provider records are not performed to verify consistency with submitted claims.
- Lack of data analysis. HCI data is not analyzed for unusual billing patterns or anomalies.
- Insufficient data collection to support data analysis. As discussed in the current finding, "Hospital Care for the Indigent-Demographic Data" service codes are not captured in the HCI database. This limits the type of data analysis performed. For example, if a provider shows unusual patterns of medical service indicating possible manipulation of claims, this could not be detected.

Each agency, department, institution or office has the responsibility to maintain a control environment and maintain control procedures. An agency's control environment consists of the overall attitude, awareness and actions of management. This would include establishing and monitoring policies for developing control procedures. Examples of control procedures include: proper authorization of transactions and activities; independent checks on performance; adequate documents and records; and adequate safeguards over access and use of assets. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

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Current Status

- Lack of oversight income eligibility determinations

The state is in the process of hiring Quality Control staff; this is currently under review by State Personnel.

- Lack of independent income verifications

This is currently being worked as part of the Steady State Solution. IBM Coalition will provide the State with a Steady State Procedure Manual as a contract deliverable.

- Lack of identity verifications

This is currently being worked as part of the Steady State Solution. IBM Coalition will provide the State with a Steady State Procedure Manual as a contract deliverable.

- Lack of signature verification

The electronic signature procedures and process are currently being developed by the state.

- Lack of provider audits

This is being reviewed as part of the Steady State Solution.

- Lack of data analysis

Currently there are discussions with FSSA Audit Section to receive the HCI payment data to review if the software ACL (Audit Command Language) is able to assist in this analysis.

- Insufficient data collected to support data analysis

Currently there are discussions with FSSA Audit Section to receive the HCI payment data to review if the software ACL is able to assist in this analysis.

HOSPITAL CARE FOR THE INDIGENT (HCI) - HOSPITAL CLAIMS

During our review of FSSA, we found that of the more than \$50M in Hospital Care for the Indigent (HCI) property tax levies annually collected by counties and remitted to the State's, all revenues above and beyond \$3M are transferred to the State's Indigent Care Trust Fund to be used as the state match portion of supplemental Medicaid payments to hospitals under Indiana Code 12-15-15-9 and Indiana Code 12-15-15-9.5.

These supplemental payments are intended to help cover hospital deficits incurred from serving vulnerable populations, such as Medicaid recipients and the uninsured. Hospitals which incur significant costs related to serving the uninsured may also be eligible for disproportionate share (DSH) payments under Medicaid. However, total DSH payments are subject to various caps, including:

1. An absolute dollar limit on state-wide payments.

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2. A hospital-specific limit equal to the hospital's Medicaid and uninsured shortfalls. (The difference between the cost of serving Medicaid recipients and any Medicaid reimbursement received is known as the "Medicaid shortfall." The difference between serving uninsured patients and any payments received is known as the "uninsured shortfall.")

Supplemental Medicaid payments, on the other hand, are subject to the following volume-based limits:

1. A state-wide limit based on total Medicaid claims priced at Medicare rates.
2. A funding limit based on available state match.

Maximizing supplemental payments across the combined Medicaid/uninsured shortfall allows DSH funding to be stretched further by the State across the remaining uninsured shortfall. Because of the sequence in which various supplemental payments are applied, HCI payments are primarily applied to the Medicaid shortfall.

HCI tax levies continued to vary from county to county based on historic utilization rates for the county-funded program times a growth multiplier. In its 2003 decision *Government Finance v. Griffin and Lake County* (784 N.E. 2d 448), the Supreme Court of Indiana stated: "we are hard pressed to see the constitutional evil in a program . . . that sets the rate of local contribution so that it varies in harmony with expenses for indigent health care in the local area." In doing so, the court affirmed that "uniform and equal rate of property tax assessment and taxation" mandated by Article 10, Section 1 of the Indiana State Constitution can be achieved through the consistent application of laws to different local circumstances, yielding different local levies.

Partly in response to the constitutional concerns raised in *Government Finance v. Griffin and Lake County*, the Indiana State Legislature amended the HCI statute to ensure that HCI payments would be more closely tied to current program utilization rates. As of State Fiscal Year (SFY) 04, hospitals began submitting claims for indigent care provided to the uninsured in the same manner as physician and transportation (P&T) providers. However, direct payment was not made by FSSA to hospitals for services to the uninsured.

Instead, hospital HCI claims were used to allocate supplemental Medicaid payments applied to the Medicaid shortfall. This shortfall is separately documented in audited cost reports submitted by hospitals to the Medicaid actuary, Myers & Stauffer.

The same pervasive lack of controls applies to HCI claims submitted by hospitals as described in our current finding "Hospital Care for the Indigent-Physician and Transportation Claims," with the following differences:

1. Less reliance on manual procedures for claims pricing. Hospital claims are priced by the Medicaid claims payment contractor, EDS, using computer software.
2. Greater risks for conflicts of interest. Under recently enacted SEA 66, FSSA may rely on information submitted by hospitals to determine eligibility. Applicant interviews are optional. If the agency chooses to require an interview, it must allow the interview to be conducted by phone with the person or the person's representative. Indiana Code 12-16-2.5-6.5 also allows the agency to contract with hospitals to perform eligibility determinations on site. Allowing hospitals to control eligibility data or determinations without counterbalancing controls to independently verify this data creates potential conflicts of interest.

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However, the potential impact of the lack of controls is different for hospital claims than P&T claims. If a hospital submits a false or duplicate claim for services to the uninsured, payment may still be made against genuinely incurred Medicaid costs verified by the hospital's cost report. What is affected is not so much the integrity of payment verification as the integrity of the allocation process.

This speaks to the constitutional issue originally raised in *Government Finance v. Griffin and Lake County*. If there are no functional controls in place over the claims verification process, then there is no consistent standard by which to apply the law. However, the lack of controls is not the only challenge to developing a consistent standard for hospital claims. Throughout SFY04, hospitals and local Offices of Family and Children reported significant logistical difficulties in obtaining compliance from the uninsured in documenting income after services had been provided. Claims volume fell below revenue collected to fund a Medicaid-related expense. The relationship of this claim volume to the Medicaid costs intended to be funded has yet to be analyzed. It is possible that even if consistent controls were in place and populations behaved consistently across counties that uninsured costs would provide an inconsistent county-to-county benchmark of Medicaid costs.

Article 10, Section 1 of the Indiana State Constitution states "The General Assembly shall provide, by law, for a uniform and equal rate of property assessment and taxation."

Current Status

1. Less reliance on manual procedures for claims pricing

A program has been developed to automate HCI pricing. The claims are cross checked against the Medicaid rate. If the rate charged exceeds the Medicaid rate the claims are written down to match the Medicaid rate. This program was fully implemented in December 2006. FSSA believes the requirement of the finding has been implemented.

2. Greater risks for conflicts of interest

Starting April 2007, a vendor employee collects the eligibility data. A State employee will determine the eligibility of services based on the data collected. The added division of diversity has limited the conflict of interest. FSSA believes the requirement of the finding is still in process and not totally implemented.

HOSPITAL CARE FOR THE INDIGENT (HCI) - DEMOGRAPHIC DATA

As stated in our prior Report B27892, we found that statutory requirements for data collection are not being met.

The following data is currently entered into the Hospital Care for the Indigent (HCI) database:

1. Applicant data. Name, Social Security number, date of birth, gender, marital status, street address, city, state, zip code.
2. Certificate of Action (COA) data. Admission date, discharge date, hospital (if applicable), application date (local OFC), receipt date (central office), application status, decision date (approval/denial), denial reason (if applicable).

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3. Claim data. Date received (central office), service date, vendor employer identification number (EIN), amount billed, amount allowed.

The following data is not captured by the HCI database:

1. Income data. Employment, household income.
2. Medical data. Reason for care, diagnosis, types of services provided, costs of services provided.
3. Additional demographic data. County of residence, welfare/SSI status, race, household status.

Indiana Code 12-16-10.5-4 states:

(a) The division shall adopt rules under IC 4-22-2 necessary to establish a state-wide collection system of data concerning the hospital care for the indigent program.

(b) The following data must be collected:

- (1) Patient demographics.
- (2) Types of services provided by hospitals.
- (3) Costs of particular types of services provided by hospitals.

No new rule regarding data collection was promulgated subsequent to the adoption of Indiana Code 12-16-10.5-4 in 2002. However, 470 IAC 11.1-2-3(a), last updated in 2001, states:

Each county office of family and children shall submit to the division of family and children within sixty (60) days following disposition of patient's application for eligibility . . . information concerning the patient, which shall include, but not be limited to, the following:

- (1) Name.
- (2) County and state of residence.
- (3) Welfare/SSI status.
- (4) Age.
- (5) Race.
- (6) Sex.
- (7) Household status.
- (8) Employment.
- (9) Household income.



FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND THE DEPARTMENT OF CHILD SERVICES  
(Continued)

(10) Reason for care.

(11) Diagnosis.

(12) Status of application.

Current Status

This is currently being worked as part of the Steady State Solution.

HOSPITAL CARE FOR THE INDIGENT (HCI) - HIPAA COMPLIANCE

As stated in our prior Report B27892, we found that protected health information is not properly secured according to the requirements of the Health Insurance Portability and Accountability Act (HIPAA).

We observed boxes of unsecured HCI records stacked within fifty feet of a freight elevator. This area is easily accessible by unauthorized users.

"Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations . . . and federal requirements." (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Current Status

Plans to secure the Financial Management department is planned. The plan includes adding security locking doors at the front and back entrances to Financial Management.

CONTRACT APPROVALS

As stated in our prior Report B27892, we found that FSSA made payments to vendors under contracts for professional services. These contracts were in effect prior to approval by the proper officials. Internal controls are weakened when a contract is put into effect before proper approval. In previous Office of Management and Budget Circular A-133 audits, FSSA had a federal finding in their audit reports for each State Fiscal Year from 1997 to 2002 whereby contracts were in effect prior to approval by the proper officials.

Indiana Code 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

Current Status

FSSA is currently using a multi-disciplinary team to develop and implement a streamlined contracting process that they expect to improve the contract process so all will be fully drafted, negotiated and approved before work begins. The implementation of the greatly streamlined and more efficient contracting system began in October 2006 and continues today. It is not yet fully implemented. FSSA will continue its policy of allowing some vendors to begin work "at risk" before a contract is fully executed and activated.

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND THE DEPARTMENT OF CHILD SERVICES  
(Continued)

Until that new contracting process can be fully implemented and operated for a sufficient time period to allow its more efficient processes to put FSSA at the point of being able to have all contracts in writing and fully approved prior to the start of performance, FSSA has no choice but to rely on the goodwill of Contractors willing to begin work at risk. To not do so would cause the vital work that FSSA performs for this State's most vulnerable citizens to be unacceptably delayed.

In mid-July 2006, FSSA engaged a cross-functional team to participate in a three-day workshop to develop an enterprise value stream map for the contracting process. The team then conducted a 90-day pilot program to test the new process. Checkups were conducted on August 17, 2006, September 20, 2006, and October 19, 2006. The pilot program confirmed that FSSA was capable of a streamlined contracting process that would produce fully drafted, negotiated and approved contracts before work begins. On October 20, 2006, the contracting staff that reported to the Director of Claims and Chief Counsel for Contract Administration, were merged into a new unit and cross-training began so that the person who drafted the statement of work was also the person who entered the pay items into the claims system. This one action has resulted in a significant reduction in cycle time. FSSA also assigned Relationship Managers to most of the Divisions who assisted in managing the portfolio of contracts to assure that each contract was started in enough time to fully develop and approve before the work was required. In FY06, only 5% of the DDRS contracts were fully executed on time. Year to date in FY07, DDRS has executed 75% of their contracts on time. These figures are now being tracked on a weekly basis and reported monthly at the Divisional Financial Reviews. While FSSA is pleased with the results of the new process, they will not be satisfied until they can report that 100% of their contracts are executed timely and accurately.

FSSA concludes this finding is not fully implemented.

#### INACTIVE FUND/CENTER

As stated in our prior Report B27892, we found that fund center 6000/120800 had no activity for over 2 years.

If a fund/center has been inactive for a period of two or more years, the agency should contact the State Budget Agency as to the continued need for any inactive funds on hand. If the fund/center contains federal funds, the grantor must be contacted regarding a balance owed. When a fund/center is no longer necessary, the agency's Budget Analyst should be contacted concerning elimination of the remaining balance. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 2)

#### Current Status

Approximately \$15,000 were donated by an estate to fund the Dr. Nathan Salon Library, fund center 6000/120800, for the purpose of purchasing resources for programs related to aging. The remaining balance is now \$8,982.44 for which the Indiana Division of Aging is reviewing possible uses of the funds. There are no federal funds in this fund center.

#### CASH MANAGEMENT LATE DRAWS

As stated in our prior Report B27892, we found several federal draws that did not follow the check clearance pattern templates as prescribed under the Cash Management Improvement Act. These draws were drawn late and as a result the State lost interest on the draws.

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND THE DEPARTMENT OF CHILD SERVICES  
(Continued)

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Current Status

At the time of this finding the check clearance pattern (CCP) was entered into the State's Federal Expenditure Tracking System (FETS). All expenditures were then entered into the FETS as either an ACH payment or a warrant payment. The CCP was then applied to all warrant expenditures. The Family and Social Service Administration is in the process of converting to PeopleSoft financials. However the Auditor of State will not be on PeopleSoft until January 2008. Until that time the payment type will not be available in PeopleSoft. Therefore, the CCP check expenditure must be manually withheld from the FETS until the CCP days have elapsed. The Auditor of State mandated as of July 1, 2006, all vendor payments are to be made by direct deposit unless a waiver is granted. Therefore, the CCP should have minimal effect on the timing of federal draws. Given the implementation period for PeopleSoft, FSSA concludes this review finding is not yet resolved.

RECONCILIATION OF REPAYMENT SCHEDULES TO ICES

During our review of FSSA and DCS, we found that actual welfare revenue recoveries are not reconciled to the Indiana Client Eligibility computer System (ICES). Revenue recoveries are received from welfare recipients for overpayments for welfare programs such as TANF, Food Stamps, and Medicaid. The ICES system is considered to be the official record for the reporting of revenue recoveries for each welfare recipient's case. Without a reconciliation process in place it cannot be determined if the values recorded in ICES are correct.

At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If the reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance. Additionally, audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FAMILY AND SOCIAL SERVICES ADMINISTRATION  
AND DEPARTMENT OF CHILD SERVICES  
EXIT CONFERENCE

The contents of this report were discussed on October 18, 2007, with Sid Norton, Chief Financial Officer, Family and Social Services Administration. The official response has been made a part of this report and may be found on pages 19 through 33.

The contents of this report were discussed on October 24, 2007, with James W. Payne, Director, Department of Child Services. The official response has been made a part of this report and may be found on pages 19 through 33.



*"People  
helping people  
help  
themselves"*

Mitchell E. Daniels, Jr., Governor  
State of Indiana

***Indiana Family and Social Services Administration***

402 W. WASHINGTON STREET, P.O. BOX 7083  
INDIANAPOLIS, IN 46207-7083

November 8, 2007

Bruce Hartman, SBOA State Examiner  
Indiana State Board of Accounts  
200 W. Washington St. Rm. 212 State House  
Indianapolis, IN 46204

Dear Mr. Hartman:

Attached please find FSSA and DCS response to the Compliance review conducted by SBOA for the review period 3/01/2006 to 2/28/2007. If you have any questions, please feel free to contact Kathleen Troiani, Audit Manager, FSSA Audit Services @ (317)-232-1219

Sincerely:

Roger A. Booth, CPA, MBA  
Chief Audit Executive  
FSSA Audit Services

cc: John Jacob, SBOA  
Kathleen Troiani, FSSA Audit Services

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**INCONSISTENT PROCEDURES**

Contact Person: David Nelson  
Title of Contact: Director of Finance  
Phone: (317) 232-7088

**Corrective Action Plan – August 2006:**

FSSA has centralized accounting and payables functions to enhance consistent procedures. In addition, FSSA has begun implementing PeopleSoft Financials. This system will enable FSSA to have one source for all financial information. However the Auditor of State (AOS) is currently not using PeopleSoft. Until the AOS begins using PeopleSoft on July 1, 2007, FSSA must use manual processes and work-arounds including utilizing various financial software systems to be in compliance with AOS requirements. FSSA continues to assess consolidating software and systems currently in use within the agency.

**Corrective Action Plan – March 2007:**

FSSA has centralized accounting and payables functions to enhance consistent procedures. In addition, FSSA has begun implementing PeopleSoft Financials. This system will enable FSSA to have one source for all financial information. However the Auditor of State (AOS) is currently not using PeopleSoft. Until the AOS begins using PeopleSoft on January 2, 2008, FSSA must use manual processes and work-arounds including utilizing various financial software systems to be in compliance with AOS requirements. FSSA continues to assess consolidating software and systems currently in use within the agency.

**Corrective Action Plan – October 2007:**

FSSA has centralized accounting and payables functions to enhance consistent procedures. In addition, FSSA began using PeopleSoft Financials to record all expense and revenue transactions consistently across the agency. This system will enable FSSA to have one source for all financial information. However the Auditor of State (AOS) is currently not using PeopleSoft. Until the AOS begins using PeopleSoft on January 2, 2008, FSSA must use manual processes and work-arounds including utilizing various financial software systems to be in compliance with AOS requirements. FSSA continues to assess consolidating software and systems currently in use within the agency. This finding remains unresolved.

**COUNTY OFFICES OF FAMILY AND CHILDREN—ACCOUNTING OPERATIONS**

Contact Person: Mary Edmonds  
Title of Contact: Deputy Director of Administrative Services, DCS  
Phone Number: (317) 232-4758

**Corrective Action Plan – August 2006:**

The Department of Child Services is currently developing standard procedures for local office internal controls. These procedures will be implemented in each of the ninety-two (92) local

offices. Implementation will include documentation of procedures and policies; resource manual; internal review team; statewide training; an on-going audit team; and a statewide accounting system. The internal review teams will at each local office review the current process; recommend appropriate re-organization of office; assist with implementation of recommendations; and assist with training.

A request has been made for three (3) Accountant 1 positions to staff the Internal Review Team. This team will be supervised by the Deputy Director of Administrative Services and/or the Controller.

Currently, a group made up of representatives from DCS Executive Staff, DCS Budget, DCS Legal, State Board of Accounts, FSSA Audit, FSSA Procurement, FSSA Financial Management, Local Office Directors, and Local Office Accounting staff, are meeting to determine what the appropriate policies and procedures should be and determine an appropriate timeline for implementation.

#### **Corrective Action Plan – October 2007:**

No change at this time. This findings remains unresolved.

#### **COUNTY OFFICES OF FAMILY AND CHILDREN – CONTRACTS AND PROCUREMENT**

Contact Person:	Celia Leaird
Title of Contact:	Manager of Prevention Services
Phone Number:	(317) 232-4497

#### **Corrective Action Plan – August 2006**

The Department of Child Services (DCS) has developed a contracting process to be used by Local offices. Because of the volume of contracts at the local level and the lack of infrastructure to support that volume in the central office, Interim Guidelines have been established with the Department of Administration. These have been shared with local offices. The Department of Child Services has further developed a process by which local offices may not enter a contract for services at the local level without the approval of the Regional Services Council (an oversight group composed of officials other than DCS staff as well as some DCS staff).

DCS proposes to address corrective action by developing a process for internal review of the DCS local office contracting process. In order to accomplish this task it would be most helpful if the State Board of Accounts would notify DCS when there is a finding that there is a local office that is operating outside the contracting guidelines.

Further, it should be noted that DCS, by Memorandum of Understanding, depends upon the FSSA contracting system. This system is under internal review in order to develop procedures by which the overall contracting process can be more responsive to the contracting needs of DCS. DCS will strongly recommend that this new process be capable of incorporating the local office contracts into its final product.

As previously indicated, this process cannot be concluded in a one year period. Every year, however, there is progress made in attaining the goal of managing local office contracts as part of the state contracting system.

**Corrective Action Plan – March 2007:**

DCS is in the process of hiring Regional Financial Mangers, who will help to ensure accountability and best use of funding sources. Anticipated date of implementation is April 2007.

Also, in DCS's budget request for SFY 2008 and 2009 is a new contract unit. The new contract unit will establish new contract guidelines for the department, including all local OFC office. Upon establishment of these guidelines all contract for DCS will be processed through the contract unit, following all IDOA guidelines. The anticipated date of implementation is September 2007.

**Corrective Action Plan – October 2007:**

No change at this time. This finding remains unresolved.

**MONITORING**

Contact Person:	Roger Booth
Title of Contract:	Chief Audit Executive, FSSA Audit Services
Phone Number:	(317) 232-6859

**Corrective Action Plan – August 2006:**

**Prior Finding Item C (Agency-Wide Monitoring Weakness) (Process Servers)**

Three initiatives are underway to resolve this finding.

- 1) KPMG has completed an extensive review and is finalizing a report that outlines FSSA's current auditing and monitoring activities and analyzes it for weaknesses and restructuring of resources. One of the recommendations in that report is that all contracts for auditing or monitoring services be directed through the Office of Audit Services. This coordination will help ensure better coverage of all program areas and all significant contracts.
- 2) Audit Services has become more involved in the Medicaid contracts for auditing and monitoring and is also involved in developing an RFP to have an MMIS audit completed on the largest claims processor contractor, EDS.
- 3) Audit Services recently purchased and has had a portion of their staff trained on data mining software called Audit Command Language (ACL). In addition, a Database Administrator was added to Audit Service's staff. ACL is currently being used to do some continuous monitoring of EDS, CMS, ACS, Covansys, and ICES.

**Corrective Action Plan – March 2007:**

Audit Services continues to make progress in both the tracking and monitoring of contracted process servers. Audit Services has partnered with KPMG to implement several suggestions in the draft summary report issued by KPMG which outlined a plan for improving the audit



function. An inventory of possible audit candidates was compiled by Audit Services utilizing available information from the Contract Management System and other FSSA sources, such as Financial Management. A multi-year audit plan was then developed which identifies and prioritizes audits to be conducted based on risk and statutory or other review requirement.

Each year, as part of their contracts with FSSA, vendors are required to submit audited financial statements to Audit Services for review. These reports include OMB A-133 audits. Audit Services has developed a system for identifying the population of providers which are required to file these audits. In addition, Audit Services is developing a system for tracking receipt of these audits as well as notifying providers when the filing requirements are not met. An evaluation of the current procedures for review of these audits resulted in significant changes to the process. Enhancements have streamlined the process so that an increased number of providers will be reviewed and those with issues of high risk to the agency will be identified.

As noted in the prior response, Audit Services has continued to utilize the data mining software, Audit Command Language (ACL). Data is collected from a variety of State databases on a regularly scheduled basis. The software then allows FSSA to extract data on selected variables in order to identify potential high risk or unusual factors within the data. Use of the software to monitor the contractual obligations of non-programmatic vendors such as EDS and ACS is currently being explored.

Additional progress has been made in Audit Services' communication with contract audit vendors as noted under # 3 of the response of August 17, 2006. FSSA has established *Audit Contractor Coordination* which facilitates the coordination of audits conducted by FSSA Audit Services with contracted audit services of OMPP. Scheduled audits are submitted to Audit Services on a quarterly basis. Monthly meetings are a forum for the exchange of information on current audits. Current issues are shared and status reports on audits in process are submitted for review.

The communication function between Audit Services and program divisions continues to improve as all areas within FSSA recognize the benefit of improved communication. Audit Services is frequently contacted by program staff for collaborative efforts during the review of contracts, program service definitions, and changes to program objectives. Audit Services staff is currently participating on the Investigative Tracking System Project Team which is evaluating the agency's current system for tracking and responding to reports of alleged fraud. The Team is also assessing agency-wide needs in order to reach those objectives with an upgraded system.

Audit Services' cooperative efforts with other FSSA divisions assist in increasing the effectiveness and efficiency of these divisions as well as the programs they oversee. Audit Services issues management reports to the various divisions which note internal control weaknesses observed during provider audits. Corrective actions plans are then recommended for the deficiencies identified. Program areas are informed of appropriate control environments and are encouraged to implement practices which aid in monitoring contracts to ensure that vendors are in compliance with contractual obligations and responsibilities. Audit Services also conveys contract language suggestions to divisional program staff. For example, suggestions might pertain to objective performance measures to be specified in a contract which will aid in FSSA's

ability to accurately evaluate and monitor contracts. Such measures will facilitate an examination of controls and adherence to written requirements which in turn, ensures that quality services are provided.

Based on the above noted improvements to procedures, as well as enhanced communication within the agency, we conclude that this finding has been implemented.

**Corrective Action Plan – October 2007:**

Audit Services has initiated a systematic process for the monitoring of non-programmatic contractors. For example, in September of 2007 Audit Services began an audit of a vendor which provides significant case management services to the Division of Disability and Rehabilitative Services. During the fourth calendar quarter, Audit Services will undertake a review of the vendor services reported in the close-out report of a State Operated Facility. Additional audit candidates have been identified through a review of vendor contracts maintained in the Contract Management System and other systems. For future periods, the population of contractors will be evaluated and contracts of material impact will be audited. The monitoring of non-programmatic vendors has been implemented as of September 2007.

**DEVELOPMENTAL DISABILITIES CONTROLS**

Contact Person:	John Parks
Title of Contact:	Director, Business Operations, BDDS
Phone Number:	(317) 234-1527

**Corrective Action Plan – August 2006:**

Claims Payment:

**Medicaid Waiver Funding as Stated in Original Finding**

- A new system of managing delivery of services to consumers was implemented on November 1, 2005. This system replaced most individual service billings (in quarter hour increments) with three budgeted groups of services: residential habilitation and supports services (RHSA), day services (DSRV) and behavioral support services (BMGT/BMG1). The annual assessment, spearheaded by the case manager, forms the basis for the development of the ISP, the CCB and the annual budget, controlled through a daily budget rate. The number of individual billing transactions per year has dropped from a rate of 82 million to 5 million, while significantly increasing both the accuracy rate and the cash flow to the providers.

**Title XX as Stated in Original Finding**

**Status for Report Period**

The Bureau of Developmental Disabilities Services plans has put in place a system to approve services for each recipient and billing will be based on that approval. This is similar to the process used for the Individual Community Living Budget (ICLB) for State Funding of residential services. This allows for the verification of the validity of day service (Title XX)

claims at the time of processing. In order to accomplish the verification of billing against the proper funding source, each provider sends an electronic submission of a report indicating by client the services being billed on the claim. This was put in place on July 1, 2003.

It should also be noted that Title XX funding source was terminated on April 1, 2002. The term continued, but the funding source dried up on that date. The new process for State-line reimbursement plans (effective July 1, 2006) has finally eliminated the term, substituting the more appropriate term, "employment supports."

In 2006, the Bureau of Developmental Disabilities Services is in the process of implementing individual Cost Comparison Budget control procedures similar to those used for waiver recipients. Individual-based billings will be submitted to CMS through the state funded data system in a similar format to that used for waiver recipients. Audit and pre-approval control process are the responsibility of BDDS.

#### **State Funding as Stated in Original Finding**

##### **Status for Report Period**

This is a correction to what was stated in the previous response. The previous response stated that Financial Management ensures that we are not paying for more services than were approved. However, this is not the case. Each person has an ICLB, which establishes a specific dollar amount of services that are approved, and the provider can only bill up to that point. A claim of more than the approved amount will get kicked out automatically by the system prior to the claim being submitted to CMS for payment.

In 2006, the Bureau of Developmental Disabilities Services is in the process of implementing individual Cost Comparison Budget control procedures similar to those used for waiver recipients. Individual-based billings will be submitted to CMS through the state funded data system (DART) in a similar methodology to that used for waiver recipients. Audit and pre-approval control process are the responsibility of BDDS. Target date for implementation of this new system is July 1, 2006.

#### **Appropriate and Necessary Services as Stated in the Original Finding**

##### **Status for Report Period**

Effective September 1, 2006, a single case management entity, IPMG, will train and oversee the case managers for all developmentally disabled consumers on waivers. This assures the independence between case manager and provider, and reinforces the importance of the quality control role that the case manager should exercise. Effective December 1, 2006, a web-based, electronic billing portal was implemented through which providers' bill actual services rendered BY CONSUMER. This portal links directly to the Claims Management System and on to the Auditor's office for electronic payment to the provider. This was the final implementation phase of the restructured of budget preparation and service billing for all State-line programs, including those funded by the SSBG. The audit trail is much more complete compared to the system it

replaces, which involved zero-sum contracts without consumer-based billing data for verifying liabilities.

**Corrective Action Plan – March 2007:**

Effective December 1, 2006, a web-based, electronic billing portal was implemented through which providers' bill actual services rendered BY CONSUMER. This portal links directly to the Claims Management System and on to the Auditor's office for electronic payment to the provider. This was the final implementation phase of the restructured of budget preparation and service billing for all State-line programs, including those funded by the SSBG. The audit trail is much more complete compared to the system it replaces, which involved zero-sum contracts without consumer-based billing data for verifying liabilities.

**Corrective Action Plan – October 2007:**

The State Line programs will not include Case Management. This finding is considered closed.

**HOSPITAL CARE FOR THE INDIGENT (HCI)—PHYSICIAN AND  
TRANSPORTATION CLAIMS**

Contact Persons:	Rich Adams/Carl McPherson
Titles of Contacts:	Deputy Director, DFR/Program Accountant
Phone Numbers:	(317) 232-1148/ (317) 232-7087

**Corrective Action Plan – August 2006:**

**LACK OF OVERSIGHT OF INCOME ELIGIBILITY DETERMINATIONS**

Due to the anticipated privatization of this function, local office workers will no longer determine eligibility for HCI. Our budget request to add Quality Control staff to audit determinations is pending.

**LACK OF INDEPENDENT INCOME VERIFICATIONS**

We anticipate the future vendor will automate the HCI eligibility process and interface with other State Data bases, including DWD and DOR.

**LACK OF IDENTITY VERIFICATIONS**

This area will be discussed with the private vendor. Since negotiations are currently underway, we are not able to view all aspects of their eligibility solutions, including HCI.

**LACK OF SIGNATURE VERIFICATION**

DFR vendor will approve all financially Certificate of Action (COA) electronically and sent to the state for medical approval with secure electronic signature early 2007.

#### INSUFFICIENT CLAIM VERIFICATION

Since there is a medical staff review and claim approval, it is cost effective to the state to use clerical staff to data process and file processed HCI claims. Having an additional higher level review is not deemed to add enough benefit to justify the cost.

#### MANUAL CALCULATION OF CLAIMS

This has been corrected by attaching all adding machine tapes to the form 1500.

#### LACK OF MEDICAL LICENSE VERIFICATIONS

Verification of the physician license in the State is verified by the hospital that allows the physician hospital privileges. All of these services are performed at Indiana hospitals.

#### LIMITED, MANUAL SCREENING FOR MEDICAID DUPLICATES

HCI data base checks for Medicaid duplicate payments before processed for payment.

#### LACK OF PROVIDER AUDITS

Currently there is discussion with FSSA/Audit to hire medical auditor(s) to audit HCI provider records.

#### LACK OF DATA ANALYSIS

Currently there is discussion with programmer to analyze data for unusual billing patterns or anomalies.

#### INSUFFICIENT DATA COLLECTED TO SUPPORT DATA ANALYSIS.

Currently there is discussion with programmer to capture service codes to show unusual patterns of medical services.

#### **Corrective Action Plan – March 2007:**

##### **LACK OF OVERSIGHT OF INCOME ELIGIBILITY DETERMINATIONS**

The state is in the process of hiring Quality Control staff; this is currently under review by State Personnel.

##### **LACK OF INDEPENDENT INCOME VERIFICATIONS**

This is currently being worked as part of the Steady State Solution. IBM Coalition will provide the State with a Steady State Procedure Manual in July as a contract deliverable.

##### **LACK OF IDENTITY VERIFICATIONS**

This is currently being worked as part of the Steady State Solution. IBM Coalition will provide the State with a Steady State Procedure Manual in July as a contract deliverable.

##### **LACK OF SIGNATURE VERIFICATION**

The electronic signature procedures and process are currently being developed by the state.

##### **INSUFFICIENT CLAIM VERIFICATION**

FSSA believes the requirement of the finding has been implemented.

**MANUAL CALCULATION OF CLAIMS**

FSSA believes the requirement of the finding has been implemented.

**LACK OF MEDICAL LICENSE VERIFICATIONS**

FSSA believes the requirement of the finding has been implemented.

**LIMITED, MANUAL SCREENING FOR MEDICAID DUPLICATES**

A program has been developed to cross check for Medicaid eligibility. The program developed does not allow payment for HCI if a client is Medicaid eligible. FSSA believes the requirement of the finding has been implemented.

**LACK OF PROVIDER AUDITS**

This is being reviewed as part of the Steady State Solution.

**LACK OF DATA ANALYSIS**

Currently there are discussions with FSSA Audit Section to receive the HCI payment data to review if the software ACL (Audit Command Language) is able to assist in this analysis.

**INSUFFICIENT DATA COLLECTED TO SUPPORT DATA ANALYSIS.**

Currently there are discussions with FSSA Audit Section to receive the HCI payment data to review if the software ACL is able to assist in this analysis.

**Corrective Action Plan – October 2007:**

Legislation enacted in the 2007 General Assembly eliminated the need to accept and process HCI Claims. No applications for HCI will be processed for services provided after June 30, 2007 and no physician or transportation provider claims submitted after July 31, 2007 will be processed. Medicaid rates for certain emergency services typically provided by physicians and transportation providers were increased beginning in SFY 2008 to compensate providers for the elimination of annual HCI payments for emergency services provided to indigent patients after June 30, 2007. This finding is considered closed.

**HOSPITAL CARE FOR THE INDIGENT (HCI)—HOSPITAL CLAIMS**

Contact Persons:	Rich Adams/Carl McPherson
Titles of Contacts:	Deputy Director, DFR/Program Accountant
Phone Numbers:	(317) 232-1148/ (317) 232-7087

**Corrective Action Plan – August 2006:**

**LESS RELIANCE ON MANUAL PROCEDURES FOR CLAIMS PRICING**

Currently there is discussion to automate this procedure; however, cost may be inhibitive.

**GREATER RISKS FOR CONFLICTS OF INTEREST**

This area will be discussed with the private vendor. Since negotiations are currently underway, we are not able to view all aspects of their eligibility solutions, including HCI.

**Corrective Action Plan – March 2007:**

**LESS RELIANCE ON MANUAL PROCEDURES FOR CLAIMS PRICING**

A program has been developed to automate HCI pricing. The claims are cross checked against the Medicaid rate. If the rate charged exceeds the Medicaid rate the claims are written down to match the Medicaid rate. This program was fully implemented in December 2006. FSSA believes the requirement of the finding has been implemented.

**GREATER RISKS FOR CONFLICTS OF INTEREST**

Starting April 2007, a vendor employee collects the eligibility data. A State employee will determine the eligibility of services based on the data collected. The added division of diversity has limited the conflict of interest.

**Corrective Action Plan – October 2007:**

Legislation enacted in the 2007 General Assembly eliminated the need to accept and process HCI Claims. No applications for HCI will be processed for services provided after June 30, 2007 and no hospital claims submitted after July 15, 2007 will be processed. This finding is considered closed.

**HOSPITAL CARE FOR THE INDIGENT (HCI)—DEMOGRAPHIC DATA**

Contact Persons:	Rich Adams/Carl McPherson
Titles of Contacts:	Deputy Director, DFR/Program Accountant
Phone Numbers:	(317) 232-1148/ (317) 232-7087

**Corrective Action Plan – August 2006:**

The following data is not captured by the HCI database

1. Income date

This will be done by the DFR vendor early 2007

2. Medical data

This is in the planning stage with a programmer to secure this data.

3. additional demographic data

We are collecting county of residence, welfare/SSI status, race, household status.

**Corrective Action Plan – March 2007:**

This is currently being worked as part of the Steady State Solution.

**Corrective Action Plan – October 2007:**

Legislation enacted in the 2007 General Assembly eliminated the need to accept and process HCI Claims. No applications for HCI will be processed for services provided after June 30,

2007 and no claims submitted after July 31, 2007 will be processed. This finding is considered closed.

#### **HOSPITAL CARE FOR THE INDIGENT (HCI)—HIPAA COMPLIANCE**

Contact Persons: Rich Adams/Carl McPherson  
Titles of Contacts: Deputy Director, DFR/Program Accountant  
Phone Numbers: (317) 232-1148/ (317) 232-7087

#### **Corrective Action Plan – August 2006:**

Plans and an IR have been submitted to IDOA through Andy Turner to secure the area to meet HIPAA compliance.

#### **Corrective Action Plan – March 2007:**

Plan to secure the Financial Management department is planned to start May 2007. The plan include adding security locking doors at the front and back entrances to Financial Management.

#### **Corrective Action Plan – October 2007:**

All HCI files have been moved to a locked room within E442. This finding is considered closed.

#### **Contract Approvals**

Contact Persons: G. Douglas Seidman/Douglas Herrington  
Title of Contacts: Chief Counsel for Contract Administration & Director,  
Claims Management  
Phone Numbers: (317) 232-1684/ (317) 234-1488

#### **Corrective response and action plan:**

**Response:** This finding says FSSA has allowed contracts to go into effect before those contracts have been fully approved as required by IC 4-13-2-14.1 and 14.2. This is interpreted that FSSA engages in the improper practice of allowing work under a contract to begin prior to that contract having been reduced to writing and approved by all necessary parties and that this practice is improper even if a Contractor is made fully aware of the risks and voluntarily agrees to start work.

Contractors are advised that should the approval of the contract be delayed, so will their payment be delayed. And, in the unlikely situation that their contract cannot be approved at all, that they will not be compensated at all for work performed. FSSA closely follows the requirement that, except in situations permitted under IC 4-13-2-14.2(b), no claims are paid unless and until a contract has been fully executed and approved.

It should be noted that the contracts in question were not paid prior to full execution of the contracts. The KPMG contract was signed by the Attorney General on 3/30/05 and the first



payment was made 4/27/05. The Crowe Chizek contract was signed by the Attorney General on 2/25/05 and the first payment was made on 4/21/05.

Therefore, the finding, as described above, is accurate. FSSA has, by necessity, engaged in this practice with willing Contractors for many years; however, we recognize and agree that it is not a best practice.

**Corrective action plan:** We are currently using a multi-disciplinary team to develop and implement a streamlined contracting process that we expect to improve the contract process so all will be fully drafted, negotiated and approved before work begins. The target date for the implementation of the greatly streamlined and more efficient contracting system is October 1, 2006.

Until that new contracting process can be fully implemented and operated for a sufficient time period to allow its more efficient processes to put us at the point of being able to have all contracts in writing and fully approved prior to the start of performance, we have no choice but to rely on the goodwill of Contractors willing to begin work at risk. To not do so would cause the vital work that FSSA performs for this State's most vulnerable citizens to be unacceptably delayed.

In mid-July 2006, FSSA engaged a cross-functional team to participate in a three-day workshop to develop an enterprise value stream map for the contracting process. The team then conducted a 90-day pilot program to test the new process. 30-day checkups were conducted on August 17, 2006, September 20, 2006 and October 19, 2006. The pilot program confirmed that FSSA was capable of a streamlined contracting process that would produce fully drafted, negotiated and approved contracts before work begins. On October 20, 2006 the contracting staff that reported to the Director of Claims and Chief Counsel for Contract Administration, were merged into a new unit and cross-training began so that the person who drafted the statement of work was also the person who entered the pay items into the claims system. This one action has resulted in a significant reduction in cycle time (upwards of 300% reduction). We also assigned Relationship Managers to most of the Divisions who assisted in managing the portfolio of contracts to assure that each contract was started in enough time to fully develop and approve before the work was required. In FY06, only 5% of the DDRS contracts were fully executed on time. Year to date in FY07, DDRS has executed 75% of their contracts on time. These figures are now being tracked on a weekly basis and reported monthly at the Divisional Financial Reviews. While we are pleased with the results of the new process, we will not be satisfied until we can report that 100% of our contracts are executed on time and accurately.

**Corrective Action Plan – March 2007:**

FSSA believes the requirement of the finding has been implemented.

**Corrective Action Plan – October 2007**

Claims Management had undergone an enterprise value stream mapping event to improve our contracting process and at that time only had anecdotal results to convey. Since then, we have

gone through two quarters of performance and have gone from 0% on time contracts last year to 56% on time this year. The new initiatives are separated out from our normal annual contracts that get renewed every year; the on time percentage jumps to 65%.

FSSA now uses Peoplesoft Financial system and no payment to a vendor can be made without a valid active contract. In order for a contract to be valid it has to be signed by the AG office and scanned into IDOA EDS system. Once done FSSA activates the contract in CMS and the contract payment is uploaded from CMS into Peoplesoft for payment. This has eliminated any payment without a valid, active contract. FSSA believes the requirement of the finding has been implemented.

#### **INACTIVE FUND/CENTER**

Contact Person:	David Nelson
Title of Contact:	Director of Finance
Phone:	(317) 232-7088

#### **Corrective Action Plan – August 2006:**

Approximately \$15,000 was donated by an estate to fund the Dr. Nathon Salon Library fund center for the purpose of purchasing resources for programs related to aging. There are no federal funds in this fund center. The Indiana Division of Aging is reviewing possible uses of the remaining funds.

#### **Corrective Action Plan – March 2007:**

Approximately \$15,000 were donated by an estate to fund the Dr. Nathon Salon Library fund center 6000/120800 for the purpose of purchasing resources for programs related to aging. The remaining balance is now \$8,982.44 for which the Indiana Division of Aging is reviewing possible uses of the funds. There are no federal funds in this fund center.

#### **Corrective Action Plan – October 2007:**

The status of this finding remains unchanged.

Approximately \$15,000 were donated by an estate to fund the Dr. Nathon Salon Library fund center 6000/120800 for the purpose of purchasing resources for programs related to aging. The remaining balance is now \$8,982.44 for which the Indiana Division of Aging is reviewing possible uses of the funds. There are no federal funds in this fund center. This finding remains unresolved.

#### **CASH MANAGEMENT LATE DRAWS**

Contact Person:	David Nelson
Title of Contact:	Director of Finance
Phone:	(317) 232-7088

**Corrective Action Plan – August 2006:**

The check clearance pattern has been updated in the Federal Expenditure Tracking System (FETS) to ensure that draws are in compliance with the Cash Management Improvement Act (CMIA). As part of the implementation of PeopleSoft Financials the process of identifying and drawing federal funds is being reviewed to insure the State does not lose interest unnecessarily and complies with the CMIA.

**Corrective Action Plan – March 2007:**

Controls and procedures within PeopleSoft Financial FSSA believe the requirement of the finding has been implemented.

**Corrective Action Plan – October 2007:**

All State agencies are required to change financial systems and business processes to conform to the ENCOMPASS PeopleSoft design by January 2, 2008. The FSSA has continuously modified processes to align with future business requirements. As such a process for timely drawing federal funds is not yet in place. The agency continues to develop processes to identify and draw federal funds timely and accurately. An automated process cannot be completed until after January 2, 2008 when additional functionality will be available in PeopleSoft. This finding remain unresolved.

**RECONCILIATION OF REPAYMENT SCHEDULES TO ICES**

Contact Person:	Rich Adams
Title of Contact:	Deputy Director of Finance
Phone:	(317) 232-1148

**Corrective Action Plan – October 2007:**

A reconciliation daily report from ICES will be requested during the October 31, 2007 steering committee meeting to be created. This daily report will show all repayment entries for the day, including those shown as a repayment for any previous day but entered on the report day and record the date entered in ICES. This finding remains unresolved.